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July 12, 2007

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: File No. PCAOB-2007-02

Dear Ms. Morris:

The American Bankers Association (ABA) appreciates the opportunity to comment on the Securities and Exchange Commission's (the Commission) Notice of Filing of Proposed Rule on Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AS5). ABA, on behalf of the more than two million men and women who work in the nation's banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership – which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

We applaud the Commission for its commitment to streamline the audit process for Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404) and for deciding to replace Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements*. The series of roundtables and public comment documents that the Commission has sponsored and solicited have resulted in the identification of a host of Section 404 issues, many of which the Commission has made attempts to address. The Commission has also recognized and responded to interpretations of previous guidance by auditors and filers that resulted in inefficient and unnecessary costs. AS5 moves in the direction of efficient guidance for auditors that has the potential to reduce costs of compliance for filers while retaining the strong investor protections and risk focus of Section 404.

We continue to have concerns about some aspects of AS5 and Section 404:

- auditors must be willing to appropriately and efficiently implement AS5, and ongoing monitoring will be necessary to ensure the benefits of the changes,
- the short time frame for adoption and implementation of the not yet released final auditing standard is insufficient to ensure efficiencies,
- certain optional requirements in AS5 should be *required* in order to promote efficiencies,
- indicators of material weakness in AS5 should be changed to *possible* indicators of material weakness,
- the compliance deadline for nonaccelerated filers should be extended to allow time for companies to implement new guidance.

Efficient Implementation

An overriding concern with respect to implementation involves the uncertainty as to auditor implementation of AS5. In May 2005, the Public Company Accounting Oversight Board (PCAOB) issued guidance that included many of the provisions that are now being proposed for inclusion in the final auditing standards. Although there was some improvement with regard to the audit firms' reactions to the May 2005 guidance, the level of improvement was insufficient. Clearly, time has passed and new audits are underway, which could result in further improvements; however, what is the incentive for audit firms to relinquish more business, even if many clients and shareholders view it as over-auditing?

The Commission and the PCAOB are proposing important changes that should help streamline both the work and costs of Section 404, while maintaining the integrity of the internal control audit. However, these proposals will only be successful if the auditing firms accept these streamlining efforts. The realization of the goals of these efforts will be measured by: (1) an evaluation by individual filers as to whether the work and costs are reduced, and (2) the efficiency inspections of auditing firms by the PCAOB. We believe that the Commission and PCAOB have achieved the proper balance with their proposals, but monitoring the results will be extremely important in determining the success of the changes.

Time Frame for Implementation

We are concerned that the issuance of the final auditing standard so late in the calendar year may not provide auditing firms with sufficient time to ensure the full benefit of the intended efficiencies in AS5. We encourage the Commission to move as quickly as possible and monitor the firms' implementation of AS5 to ensure that the late time frame does not result in the incomplete use of AS5.

Optional Requirements

Paragraph 17 of AS5 includes a section on using the work of others and how auditors can determine whether they can use the work of others to improve the efficiency of the audit. If the work of others is found to be competent and reliable, then the auditor should be *required to utilize the work of others if it would improve efficiency*. Requiring the use of efficient procedures rather than permitting them will result in more efficient audits.

A section of paragraph 40 of AS5 relates to testing redundant controls. It allows an auditor to omit testing a redundant control if another tested control sufficiently addresses the risk. If the redundancy is not the control objective, the auditor should be *required to test only the most efficient control*.

Indicators of Material Weakness

Paragraph 60 of AS5 includes several examples of indicators of material weakness in internal control of financial reporting under the headline *Indicators of Material Weakness*. The heading and the language of the paragraph should be changed to Possible Indicators of Material Weakness in order to further avoid confusion over what the identified indicators might mean. This is particularly important with respect to the second indicator presented:

- Restatement of previously issued financial statements to reflect the correction of a material misstatement

Many times in recent years the Commission or another interpretive body has announced new interpretations of old accounting standards (for example, derivatives and hedge accounting), resulting in the need to restate previously issued financial statements. Investors have ignored these restatements because, while the amounts were material, the correction resulted in cash or income merely being moved from one period to another and not having an impact on the overall financial position of the subject company.

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In many cases, these interpretations are new to companies and auditors alike and should not be viewed as material misstatements. For this reason, a restatement due to a material misstatement should be evaluated as a possible, rather than a definite, indicator of a material weakness.

Extension for Nonaccelerated Filers

The U.S. House of Representatives has recently voted to include language in the federal appropriations bill that would prevent the Commission from enforcing the Section 404 requirements for nonaccelerated filers during the 2008 federal fiscal year. They have included this language in order to alleviate the implementation costs of Section 404 for smaller public companies. This is because these companies are being faced with an extremely short amount of time, only a five month window in which to fully implement, test, and adjust their internal controls to comply with the new guidance. Additionally, there is much concern that the new guidance may not result in a sufficient reduction of costs. We continue to encourage the Commission to announce a one year delay for nonaccelerated filers.

We recognize the significant work that the Commission has done in order to improve the Section 404 process, and we thank you for addressing our concerns in the proposal. Please contact Charlie Gilman, ABA's Accounting Policy Advisor (202-663-4986 or cgilman@aba.com), or me with any questions.

Sincerely,

A handwritten signature in cursive script that reads "Donna J. Fisher".

Donna Fisher